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Highlights of September 1 ISB Meeting: ISB to Propose Standard on Safeguard Approach for Employment with Clients

Independence Standard Board

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Highlights of September 1 ISB Meeting

For Immediate Release

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Executive Director

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ISB TO PROPOSE STANDARD ON SAFEGUARD APPROACH

FOR EMPLOYMENT WITH CLIENTS

Discussion Memoranda on Appraisal & Valuation Services

and Firm Structures Also Approved

NEW YORK (September 1, 1999) – The Independence Standards Board recognized that issues of auditor independence might arise from the prospect of an auditor seeking or being offered employment with an audit client. At its meeting today, the Board therefore directed its staff to develop an Exposure Draft for a proposed standard that will require audit firms to develop and implement internal standards and monitoring mechanisms in connection with any such employment of its partners or professional staff. In doing so the Board tentatively rejected the alternative of creating a set period in which no such employment could occur without impairing the firm's independence.

The Board had received letters expressing overwhelming support for safeguards in response to its March 12th Discussion Memorandum, *Employment With Audit Clients*. The letters came from a variety of parties, including auditors, public companies, state board members, individual and institutional investors, and the Public Oversight Board.

William T. Allen, Chair of the ISB, who is not an accountant by profession, said "it was the sense of the Board that the public interest could best be advanced by a set of safeguards that offer high assurance to the investing public that employment opportunities do not cast even a slight shadow on the objectivity and independence of audits of public firms. We are tentatively of the view that this can be done, and if properly implemented, such an approach promises the optimal solution." The Board was informed at the meeting that preliminary feedback on its public perception research study shows support for a safeguards approach to this problem. "While our process is not a polling process, I think the Board was comforted to know

Arthur Siegel, CPA
Executive Director

that its own perspective on the solution is apparently shared by other knowledgeable persons including those who are not auditors."

Richard H. Towers, CPA
Technical Director

Current AICPA rules require a professional considering an employment opportunity with an audit client to remove himself or herself from the audit until the matter is resolved. The ISB approach will retain that requirement but also require additional safeguards such as an ex post facto review by a supervisor of any audit work performed by a professional who has accepted such employment, disclosure to and discussion of any such employment with the client audit committee, and review of the next completed audit under the firm's internal inspection program and by the firm's peer reviewer.

Susan McGrath, CPA
Director

William J. Cashin Jr.,
CPA, CFA
Project Director

Christine D. Bricker
*Assistant Technical
Director*

In other business, the Board cleared the release of a Discussion Memorandum on whether audit firm professionals should be permitted to perform appraisals and valuations for audit clients. "This is an area that very clearly raises independence concerns and on which the existing guidance is unclear," Allen said.

The Board also voted to expand the scope of the Firm Structures project to include the independence implications of situations where audit firms own minority interests in other entities, and approved making revisions to a Discussion Memorandum on firm structures to accommodate that change.

"This Discussion Memorandum considers the dramatic changes occurring in the structure of the accounting profession," Allen said. "These changes could conceivably have a profound effect on auditor independence and there is no current guidance for these new situations."

The Exposure Draft and the two Discussion Memoranda are expected to be issued in the near future for ninety-day comment periods.

The Independence Standards Board (www.cpaindependence.org) is a private standard-setting body established in 1997 as the result of an agreement between the American Institute of Certified Public Accountants and the Securities and Exchange Commission. However, it operates independently of either body. Its mission is to develop concepts, principles and standards that ensure the independence of auditors of public companies. It is headquartered in New York.

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